

*Markets are still
digesting* RISKS

09 March 2026

evelyn PARTNERS

from the
MIDDLE EAST

Markets are still digesting RISKS from the MIDDLE EAST

The ramifications of the escalating conflict in the Middle East are increasingly uncertain. Moreover, the US and Israeli military strikes on Iran are now reverberating through energy prices: Brent crude oil has risen more than 50% since the conflict started to US\$107 a barrel¹ at the time of writing, its highest level in a year. In turn, Iranian drone and missile strikes on regional oil and gas infrastructure, along with damage to multiple tankers, have further heightened concerns about supply disruptions.

So far, the price action in financial and currency markets has been volatile rather than disorderly. Nonetheless, the balance of risks is shifting. Upside inflation pressures are building as energy costs rise, while equities face mounting downside risk and bonds are increasingly exposed to renewed inflation momentum. Geopolitical events are inherently unpredictable, which is precisely why we invest in highly diversified portfolios, built to potentially withstand such risks over the long term.

In this note, we discuss the importance of the Straits of Hormuz (SoH), assess oil supply disruptions in the Middle East, and consider the implications for markets and portfolio hedging strategies.

Importance of the Straits of Hormuz

The Straits of Hormuz is the world's most vital energy chokepoint, and its effective closure leave no viable alternative route for the region's exports. Five of the world's top ten oil producers (Iran, Iraq, Saudi Arabia, the UAE, and Kuwait) border the Persian Gulf, along with Qatar, the largest liquified natural gas (LNG) exporter. For all of them, the Strait is the only maritime corridor connecting their energy supplies to global markets.

Roughly a fifth of global crude oil and LNG exports move through a shipping channel just 3.2 km wide. Iran's geography and military capabilities give it the power to close the SoH and strike energy infrastructure across the Gulf. Iran has already halted energy flows coming through the SoH, threatening the global economy.

Historically, Iran's dominance over the Strait has served as a powerful deterrent against attempts to overthrow its regime. That deterrent now appears to be eroding. The renewed reassessment of energy-supply risk underscores both the vulnerability of global markets and the centrality of the SoH to any geopolitical escalation in the region.

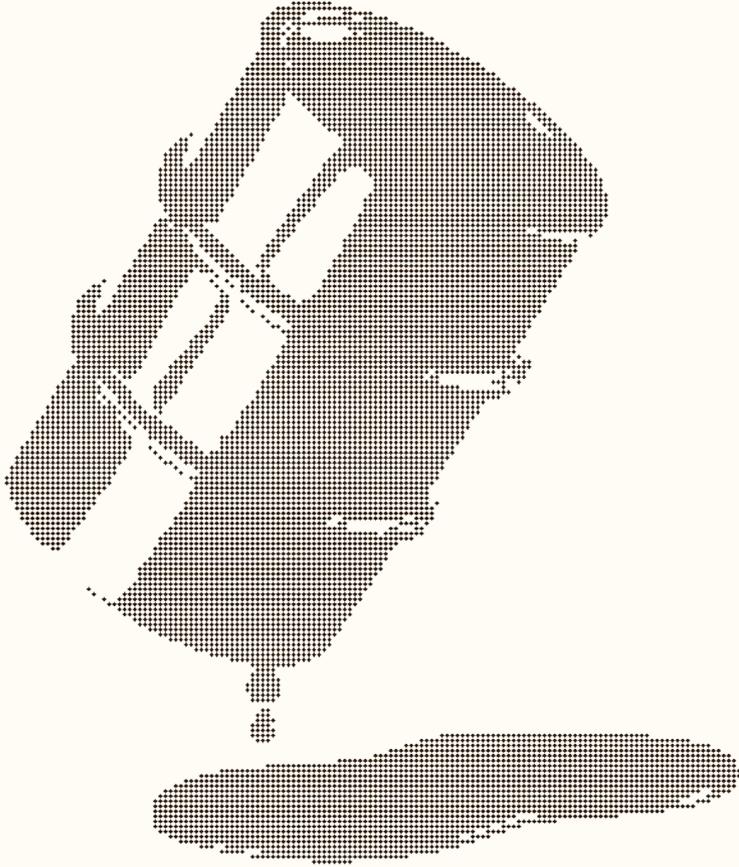
Logistics matter

The tangible evidence of the conflict is becoming clear. Iran's missile and drone attacks have extended to Saudi Arabia's Ras Tanura complex (a major oil refinery and export hub) and forced interruptions at Qatar's LNG facilities. Qatar has declared force majeure on its LNG exports, meaning it cannot meet contractual delivery obligations due to circumstances beyond its control. Other Gulf states may do the same over the coming weeks.

Separately, several tankers have been damaged across Gulf waters last month. However, the more consequential impact lies not only in physical damage, but in the growing paralysis of regional shipping lanes in the SoH. That's because marine war risk insurance was withdrawn or severely curtailed by private markets as perceived risk spiked.

In response, the White House announced that the US government would pair naval escorts with Development Finance Corporation (DFC) insurance to backstop voyages through Hormuz.

¹ LSEG (2026), Brent crude oil price data, 9 March 2026



While the intent is clear, the execution is less so. In early March, JPMorgan estimated that it would cost \$352bn to fully insure the tankers in the Gulf.² If correct, this would be above the DFC's statutory cap of \$205bn through 2031 and far beyond its per project exposure limit of around \$10bn. Any program large enough to fully replace private insurance across the fleet would likely require new legislation passed through Congress, which would take time.

Moreover, if petroleum exports cannot leave the Gulf, storage fills quickly, forcing producers to shut-in their output. This can damage reservoirs by disrupting pressure management and permanently reduce future production capacity. Storage constraints therefore play a critical role in how prices are formed along the futures curve.

Thus far, the impact has been concentrated at the front end of the oil curve, signalling elevated near-term risk but no confirmed large-scale physical loss.

If prices for future oil delivery move higher and stay elevated, companies begin to incorporate higher energy costs into their budgets, contracts, and pricing decisions, increasing the likelihood that these costs are passed on to consumers. Central banks monitor these developments closely: a persistently higher oil outlook tends to lift near-term inflation forecasts and can tilt policy guidance in a more hawkish direction. Given that traders had priced in US interest rate cuts, any shift toward higher rates would surprise markets and likely put downward pressure on both bonds and equities.

Why China matters as a geopolitical “offramp”

China is uniquely positioned to restrain Iran because it remains Tehran's primary economic lifeline. For two decades, Beijing has provided tens of billions in oil-backed financing, infrastructure investment and long-term supply deals, while shielding Iran at the UN and helping it maintain export routes through the harshest sanctions. China also remained Iran's largest oil buyer, sustaining a critical economic backchannel.

China's leverage is amplified by its energy exposure: it receives around 40% of its crude oil transiting the SoH, leaving its economy highly vulnerable to disruption.³ Beijing cannot risk a prolonged shock to crude or LNG flows, especially amid domestic political strain, where an energy hit could deepen fragility.

For these reasons, China has powerful incentives to pressure Tehran to halt missile strikes on Gulf energy infrastructure and to prevent escalation that could threaten flows through Hormuz. Iran is central to China's broader West Asia strategy: cheap sanctioned oil, yuan-settled trade channels, Belt and Road corridors, and BRICS alignment — its participation in the economic and political bloc of major emerging economies (Brazil, Russia, India, China and South Africa) that seeks to increase cooperation and reduce reliance on Western-led institutions. Instability in Iran would jeopardise these strategic pillars and threaten China's most reliable backchannel for discounted crude.

² J.P. Morgan (2026),
“Oil Flash Note: DFC Insurance Cap Too Small for the Risk”

³ Center for Strategic and International Studies (CSIS) (n.d.),
“No One—Not Even Beijing—Is Getting Through the Strait of Hormuz”

At the same time, President Xi sees regional calm as leverage ahead of his March summit with President Trump, potentially offering to restrain Iran in exchange for US import tariff relief and eased tech-export controls. Energy stability in the Gulf thus becomes a direct bargaining chip in wider US-China economic negotiations.

For Washington, rising gasoline prices, market weakness and higher Treasury yields raise the political cost of a prolonged conflict heading into midterms. With Trump's approval tied to consumer sentiment, the White House is also highly motivated to avoid an extended energy shock.

In this environment, China is the only actor with both the influence over Tehran and the strategic motivation to drive de-escalation. Any signal that Beijing is pressing Iran to scale back attacks and protect Hormuz flows would indicate movement toward a negotiated off-ramp rather than a drawn-out confrontation.

Concluding thoughts and portfolio hedges

It is probably too soon to assess the impact of events in the Middle East on the global economy. This represents a stagflationary shock (higher inflation and lower growth) to the global economy, the magnitude of which depends on how long the conflict lasts and the extent to which energy can be exported from the Middle East given the SoH is effectively closed.

Our base case is for a 'contained conflict' that has a limited global growth impact but with a transitory increase in inflation. For the moment, global equities continue to be underpinned by an upward expansion in company earnings. However, given the inherent uncertainty and the asymmetric nature of wars, portfolio diversifiers can include:

Gold and diversifying hedge funds: These assets' low correlation to both equities and bonds during inflationary shocks can make them useful portfolio diversifiers, and particularly against geopolitical tail events.

Inflation linked bonds: Linkers/TIPS hedge headline inflation surprises and the risk that central banks tolerate temporarily higher inflation to avoid magnifying growth downside while the conflict persists.

Short duration bonds: Given the current uncertainty over the inflation outlook and rising government debts and deficits over the medium term, it makes sense to keep portfolio exposure to short duration sovereign bonds, which are less sensitive to changes in the inflation outlook.

Energy equities: In the short term, oil and gas equities have benefited from recent price moves and historically do well when the price of crude oil rises.



Speak to us

Authors:

Daniel Casali

For further information:

E: contact@evelyn.com | T: 020 3131 5203

evelyn.com

Evelyn Partners Investment Management Services Limited is authorised and regulated by the Financial Conduct Authority.

© Evelyn Partners Group Limited 2026

evelyn PARTNERS

at
EVELYN
PARTNERS